

**Exposure Draft 02/21: Proposed Amendments to APES 110 Code of Ethics for Professional Accountants (including Independence Standards) Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers**

Review of Submissions – Specific Comments  
 Exposure Draft 02/21: Proposed Amendments to APES 110 Code of Ethics for Professional Accountants (including Independence Standards) Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers

**Note:** General comments relating to Exposure Draft 02/21 are addressed in a separate table. This table excludes minor editorial changes.

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
1	Section 325	IPA	<p>IPA believes additional Australian guidance paragraphs could also be incorporated into section 325 to address the objectivity of other appropriate reviewers in the context of small and medium practitioners providing non-assurance services. Consideration of this issue could be undertaken in the context of APESB's Quality Management project (APES 320).</p> <p>Our review of ED 02/21 has also identified an editorial suggestion in the Appendix below.</p>	No
2	Section 325	PP	<p>The view taken by the proposed revisions to the Code in this ED in identifying and evaluating threats, is that EQR's and EP's are not capable of demonstrating the five ethical principles particularly where the EP is more senior than the EQR, where the partners have a close relationship, or where two engagement partners are EQR's for each other's engagements.</p> <p>Suggested safeguards are not provided for self- review and familiarity threats which implies that these threats cannot be addressed with safeguards so should be avoided. The safeguards suggested for intimidation threat (i.e., reassignment of reporting responsibilities) implies that the most senior audit partner/PIC of an audit division could not be an EP on an engagement that required an EQR or that an EQR cannot be junior to the EP as this will result in an intimidation threat.</p> <p>Additional guidance is required in relation to evaluating self-review and familiarity threats and safeguards for these threats should also be included in the standard. The term 'close relationship' also requires clarification.</p>	No

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3	325.6 A1(a)	PP	<p><b>(a) Self Interest Threat</b></p> <p>The proposed new Section 325.6 A1 identifies various threats to the objectivity of a member in public practice appointed as an EQR that might be created. We have provided our comments on each of these below:</p> <ul style="list-style-type: none"> <li>• <b>Two Engagement Partners each serving as an Engagement Quality Reviewer for the other's engagement.</b></li> </ul> <p>We acknowledge that there may be a potential threat when engagement partners serve as EQR on each other's engagements however these two people should also be considered respected and experienced professionals who are capable of demonstrating ethical behaviour in performing their roles despite this scenario occurring.</p> <p>The evaluation of threats section does not seem to address this threat nor do the suggested safeguards. From the guidance provided, there does not appear to be a viable solution to this scenario, which raises questions of how smaller practices can function and still perform audits which require an EQR.</p> <p>The lack of evaluation points and safeguards infers that this scenario is not acceptable. Is that the intention?</p> <p>In smaller firms where there are only a small number of audit partners, or even in larger firms there may be a limited number of partners with sufficient experience for example in a particular industry to perform the EQR role, this situation will be unavoidable. Is there an expectation that external reviewers should be used in this instance? The ramifications of sourcing EQR roles from outside of the firm are substantial, such as independence, qualifications, insurance, appropriate engagement letters, client confidentiality, and even if firms actively only take on clients which do not require an EQR and then circumstances change, this is additional inefficiency for the client and the auditor. All of which would make it harder for a smaller firm to engage and perform work where an EQR role is required, therefore without a suitable series of safeguards which are permissible within the standard this would appear to be a measure which will reduce the available pool of auditors.</p>	No

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			<p>Based on an article in the Australian Financial Review on 12th May 2021, the number of RCA's has decreased by more than 20% in the last 4 years. In addition, 40% of current RCA's are due to reach retirement age in the next 5 years. Adding further requirements to an already highly regulated industry is likely to exacerbate the exit of auditors from the industry. At some point the scale of implementing measure after measure in pursuit of an audit of faultless quality and purest independence will outweigh retaining quality auditors such that there becomes a shortage of auditors. With less auditors available, independence and quality will be negatively impacted which is the complete opposite of what these requirements are trying to achieve.</p>	
4	325.6 A1(b)	IPA	<p><b>Appendix</b></p> <p><b><i>IPA Editorial Suggestion</i></b></p> <ul style="list-style-type: none"> <li>• <b>Section 325, paragraph 325.6 A1(b) – Self-review Threat</b></li> </ul> <p>IPA suggests changing the word “previously” to “recently”. The term “previously” doesn’t necessarily indicate a threat will continue to exist. As time passes, the threat dissipates. The term “recently” indicates a higher likelihood that a threat prevails at a point in time. Use of the term “recently” would fit well with the later guidance in paragraph 325.7 A1 which provides “The length of time the individual was previously involved with the engagement and the individual’s role”.</p>	No
5	325.6 A1(b)	PP	<p><b>(b) Self Review Threat</b></p> <ul style="list-style-type: none"> <li>• <b>A Member serving as an Engagement Quality Reviewer on an Audit Engagement after previously serving as the Engagement Partner.</b></li> </ul> <p>Out of all the threats identified, this one is more likely to occur even for a respected professional with many years of experience who demonstrates the utmost ethical behaviour. There is likely to be (at least) an unconscious bias by the partner moving from the EP role to the EQR role and they are less likely to demonstrate scepticism over judgments that they have previously made on the client as the EP. The proposed safeguard of an EP cooling off for two years before becoming an EQR on the same client addresses this threat.</p>	No

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6	325.6 A1(c)	PP	<p><b>(c) Familiarity Threat</b></p> <ul style="list-style-type: none"> <li>• <b>A Member serving as an Engagement Quality Reviewer has a 'close relationship' with or is an Immediate Family member of another individual who is involved in the engagement.</b></li> </ul> <p>How is 'close relationship' defined? The smaller the firm the "closer" the partners are likely to be. Does this mean that a partner from the same firm cannot perform the EQR role? This would not be a desirable outcome.</p> <p>Again, the safeguards section does not address a familiarity threat which infers that this threat cannot be reduced to an acceptable level. Is that the intention? Further the lack of any clear definition of what a "close relationship" means renders this proposal exceedingly challenging to address, comprehend and were it enabled, to execute effectively.</p>	No
7	325.6 A1 (d)	PP	<p><b>(d) Intimidation Threat</b></p> <ul style="list-style-type: none"> <li>• <b>A Member serving as an Engagement Quality Reviewer for an engagement has a direct reporting line to the partner responsible for the engagement.</b></li> </ul> <p>Does this mean that the Partner In Charge "PIC" of an audit division cannot be an Engagement Partner on an engagement that requires and EQCR/EQR? Any EQCR assigned to their engagements will have a direct reporting line to them?</p> <p>In evaluating the threats, the proposed requirements advise considering the role and seniority of the individual appointed as EQR. Does this mean that junior partners cannot be EQR for more senior partners? If this is the case what constitutes junior and senior? Is it years of experience, in which case only partners from the same year of promotion could be EQR? The denial of the support of a more junior partner by a more senior partner would appear to be limiting the ability of senior partners to support junior partners in their roles. This is addressed by the cooling off period rather than by additional restrictions on partner seniority.</p> <p>The safeguards section addresses an intimidation threat by providing the example of reassigning reporting responsibilities within the firm which suggests that the most senior audit partner cannot be an EP or that and EQR cannot be junior to an EP due to the threat of intimidation. This will make allocation of engagements very difficult to keep track of, it will restrict the allocation of engagements for various partners (i.e. the most senior partner cannot by an EP and the most junior partners cannot</p>	No

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			be EQR's) and also infers that the partners involved cannot be trusted to behave ethically and professionally, respecting each other's opinions, in performing their roles.	
8	AUST R325.8.1	IPA	The Institute of Public Accountants supports the proposal in ED 02/21 to incorporate an Australian paragraph AUST R325.8.1 to enhance and clarify the requirement that an Engagement Partner cannot undertake the role of an Engagement Quality Reviewer for the same Audit Client without completing a two-year cooling-off period between the two roles.	Yes - Optional paragraph AUST R325.8.1 to be included in Amending Standard.
9	AUST R325.8.1 and R540.17	CPA A	We note that the ED has included an optional AUST paragraph (AUST R325.8.1) which links to ASQM 2 and outlines the cooling-off period for a Member in Public Practice between finishing in a role of Engagement Partner and commencing a role as the Engagement Quality Reviewer for the same Audit Client. There is also an option to cross reference AUST R325.8.1 to paragraph R540.17. CPA Australia agrees with the inclusion of these options in the revised Code, as it is consistent with in our submission to the International Ethics Standards Board for Accountants, on this topic, in April 2020.	Yes- Optional para Aust R325.8.1 and the cross- reference in R540.17 are to be included in amending standard.
10	R540.20 and Transitional Provision para 1	CA ANZ	We support the transitional provision for Long Association of Personnel with an Audit or Assurance Client in paragraph R540.20 to have effect only for audits of financial statements for periods beginning prior to 31 December 2023 to align with the ending of the transitional provisions for engagement partners. However, noting should the transitional provisions in the International Code be extended, this would need to be revisited.	No

**RESPONDENTS**

1	CA ANZ	Chartered Accountants Australia and New Zealand
2	CPA A	CPA Australia
3	IPA	Institute of Public Accountants
4	PP	Pitcher Partners